

# Infant Formula Prices and Availability

## Final Report To Congress

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### Introduction

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) helps safeguard the health of low-income pregnant, breastfeeding, and postpartum women, infants, and children up to age 5 who are at nutritional risk by providing a package of supplemental foods, nutritional education, and health care referrals.

Although WIC encourages mothers to breastfeed, a majority of participating infants receives infant formula through WIC. In the mid-1980s, infant formula accounted for nearly 40 percent of total WIC food costs, and infant formula retail prices were rising more quickly than prices for other foods. These factors led Tennessee and other States to look into cost containment practices to reduce infant formula costs. Tennessee initiated a rebate contract system in 1987. In 1989, P.L. 101-147 required States to use competitive bidding—or an alternate method that would yield savings equal to or greater than those produced by competitive bidding—to procure infant formula. Indian State agencies with 1,000 or fewer WIC participants are exempt from this requirement.

WIC State agencies typically use competitive bidding to award a contract to a single manufacturer of infant formula for the exclusive right to provide its product to WIC participants in the State. The contract-winning manufacturer is then billed for the amount of the rebates on the formula issued to WIC participants. In fiscal year 2001, WIC is projected to receive almost \$1.55 billion from infant formula rebates, an amount that supports 28 percent of WIC participants (USDA, 2000c).

WIC is an influential agent in the infant formula market. Infants participating in the WIC program consume

over half of all infant formula sold in the United States. Some observers have hypothesized that WIC's infant formula rebate program may significantly affect the infant formula market and the prices faced by non-WIC consumers. For example, by channeling large volumes of guaranteed purchases to contract-winning manufacturers, the WIC rebate program may have the effect of reducing the number of infant formula manufacturers. If so, reduced competition could lead to higher retail prices. In addition, prices could rise as a result of the WIC rebate program if the demand for a particular infant formula increased in the non-WIC market due to the manufacturer of that formula having won the WIC contract (GAO, 1998). This could happen if, as a result of winning a WIC contract, a manufacturer was able to obtain increased shelf space in retail stores or if physicians or hospitals were more likely to recommend the contract-winning formula to their non-WIC patients.

In 1999, Congress expressed concern about the rise in the cost of infant formula since the WIC rebate program began and the decline in the number of infant formula suppliers (H.R. 106-157). In October 2000, Congress directed USDA's Economic Research Service (ERS) to report on the "number of suppliers of infant formula in each state or major marketing area, and to compare the cost of formula that is included in the WIC rebate program versus the cost of formula that is not in the WIC rebate program" (H.R. 106-948). This report, a result of that mandate, uses scanner-based retail sales data to examine these issues. This is the first comprehensive national study to analyze prices of infant formula at the retail level; most of the previous work examined wholesale infant formula prices (for example, see GAO, 1998). The use of retail prices enables this study to examine directly the infant formula prices faced by non-WIC consumers.

In addition, previous studies focused on infant formula sold in liquid concentrate form. Since the share of infant formula sales held by powdered formula has been growing and powdered is now the predominant form, this study examines not only liquid concentrate but also powdered formula.

In April 2001, ERS published an interim report to Congress for this study (Oliveira et al., 2001). This final report bolsters the interim report in two ways. First, it examines average retail prices for soy-based infant formula products in addition to milk-based

products. Second, the price analysis is based on a more refined product specification.

The next few sections describe the WIC program, the infant formula rebate system, the major features of the domestic infant formula market, and the data set used in the analysis. The sections “Availability of Infant Formula” and “Retail Price of Infant Formula” specifically respond to the directives made by Congress. The concluding section summarizes the study’s major findings. The appendix presents a history of WIC’s infant formula rebate system.